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CURRENT SUPPORT BRIEF

THE SOVIET BUDGET FOR DEFENSE AND THE ANNOUNCED MANPOWER REDUCTION

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CENTRAL INTELLIGENCE AGENCY

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The recent Soviet announcement of its budgetary allocation for Defense for 1961, although it reflects only a modest reduction in planned expenditures, is compatible with the reduction in the armed forces of 1.2 million men announced by Khrushchev on 14 January 1960. This budgetary allocation is 92.55 billion rubles (9,255 billion new rubles) or some 3.5 billion rubles less than the planned expenditures of 96.1 billion rubles for 1960.

Because its scope and composition are not fully known, the budgetary allocation for Defense does not permit, of itself, judgment as to whether or not the announced reduction in manpower is being implemented. That the modest change in the allocation is not incompatible with such an appreciable reduction in forces is attributable to several factors.

1. It was announced that the reduction in force was to be completed by the end of 1961, that is, within a period of two years. Thus, half the indicated time remains and it is to be expected that only a part of the personnel have been released. Moreover, any immediate change in the associated outlays is not likely to be in direct proportion to the personnel released. For example, the timing of the releases within a year may be such that there would be little noticeable impact on expenditures in that year. Expenditures for personnel can even increase (see 2, below), particularly if release is late in the year.

2. The release of large numbers of career personnel requires considerable immediate and non-recurring outlay for severance pay, relocation, and the like, as well as an increase in pension payments. The former keep the level of expenditures up for as much as one year after release; the latter are more permanent in their effect.

3. The extent of the savings that occur for any period of time is to a considerable extent a function of the rank or grade of those released. The officer corps representing some 20 percent of total military manpower receives 80 percent of the pay and allowances. Consequently, should proportionately fewer officers be released during a period, the decline in expenditures for the period would be relatively small.

4. The budgetary decline is necessarily on a net basis. Given new programs to maintain the military posture while releasing personnel, it is reasonable to expect some expenditures to increase.

Of related interest is that Khrushchev's announcement last January that 16-17 billion rubles would be saved by the reduction in force is thought to have reflected gross, not net, savings. The only argument against such a conclusion is that if a significant reduction in the allocation does not show up by next year he may have left himself at a propaganda disadvantage.

Finally, estimates of Soviet military programs and activities indicate that in spite of reductions in force of the approximate size announced by Khrushchev, growth in total military expenditures is to be expected during the next 5 years. The estimates exhibit some decline during the period of the reductions and thereafter increase.

Definitive comparison between estimated expenditures and the explicit budgetary allocation--92.55 billion rubles in 1961--is not possible because, as already noted, the scope of the allocation is not fully known. Certain

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outlays, which are in very large part extremely sensitive to changes in personnel strength--those for personnel and operation and maintenance--are, however, clearly financed from this allocation. It is estimated that such outlays will be some 6 billion rubles lower in 1961 than in 1960 and 14 billion rubles lower in 1962 than they were prior to the announced period of the reductions. Total expenditures for 1961, however, are estimated at a level only 3 billion rubles lower than for 1960.

Estimated Soviet Military Expenditures, 1959-65 1/
(Billion 1955 rubles)

	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>
Personnel <u>a/</u>	42	40	35	30	30	30	30
Operation and maintenance	27	27	26	25	27	28	29
Subtotal	69	67	61	55	57	58	59
Other	78	86	89	89	92	97	102
Total	147	153	150	144	149	155	161

a. No estimates of severance pay and the like are included.

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